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APGFCU Your Community Credit Union

March 30, 2009

Mr. Michael E. Fryzel
Chairman of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, VA 22314-3428

Dear Chairman Fryzel:

We respectfully submit our comments regarding the Advance Notice of Proposed Rulemaking and Request for Comment for Corporate Credit Unions. They are as follows:

1. **The Role of Corporates in the Credit Union System.**

Payment system.

Corporate credit unions should continue to offer payment services since this is an important service, particularly for small asset size credit unions.

Liquidity and liquidity management.

Providing liquidity is a fundamental service that needs to be offered by corporate credit unions. The process of gathering excess liquidity from natural person credit unions and loaning these funds back to natural person credit unions that are in need of liquidity is a vital service. Natural person credit unions that need to borrow due to high loan to share ratios or for daily cash management have limited resources. Most natural person credit unions use the Federal Home Loan Banks or a correspondent bank as a source of borrowings. There are also the Federal Reserve Bank (FRB) and Central Liquidity Fund (CLF), but these sources are usually a last resource for emergency liquidity purposes. Since we are a cooperative, it is in our best interest to have our own facility (corporate credit union) to use in order to manage our liquidity excesses and needs.

Corporate credit unions also need to have a source for liquidity shortfalls if there is a need within the entire system. However, corporate credit unions should not be allowed to borrow to reinvest those funds in an arbitrage. We believe that this has contributed to some of the losses corporates are currently experiencing.

Field of membership issues.

Structure Regional Corporate Credit Unions - We are of the opinion that natural person credit unions will be better served if there are not overlapping fields of memberships. Overlapping fields have resulted in decreased earning for the corporates. They have lowered their requirements for paid in capital to entice natural person credit unions to join their corporate, which has reduced their net worth. They are competing for shares of natural person credit unions, which have driven up their cost of funds. Finally, to offset these two negative contributing factors, the corporates took on riskier investments in order to increase their interest income.

The number of corporates has already decreased from 40 to 28 over the last several years due to mergers in order to gain economies of scale. That is why we are recommending that corporates should be structured similar to the Federal Home Loan Bank system. One alternative would be to have twelve corporate credit unions that are districted like the Federal Reserve Banks. Each regional corporate would have its own board of directors that is representative of its district. This would prevent each corporate from competing against one another, which drives up funding costs and the need to take on additional risk in order to remain profitable.

Expanded investment authority.

Do Not Expand the Authority - Fundamentally, what is good for natural person credit unions should be good for the corporates. The role of the corporates is to operate because of the economies of scale gained by aggregated sources of funds and consolidation of transactions. To allow corporates to expand their investment authority would be a disservice to all natural person credit unions and could lead to additional risks.

Structure; two-tiered system.

Authorize Direct Access to the CLF - We support the use of a two-tiered system for corporates. There should be a central corporate to which the various regional corporates belong. Again, this structure would be similar to the Federal Home Loan Bank system. The central corporate should have direct access to the CLF, as well as other sources for liquidity. Our vision is that the central corporate would set up a facility that would purchase and securitize mortgages, car loans, credit cards, and home equity loans from natural person credit unions. This would provide those natural person credit unions that have excess loans with a conduit to pool these loans, securitize them, and then sell the securities to natural person credit unions that have excess liquidity. If this could be done effectively, we believe the credit union movement could be self-sustaining. It would reduce our need to look to Wall Street for investments and securitization services that are done at tremendous profits for them, and that are costly to us. Quite possibly, this would reduce the need and cost for some credit unions that do loan participations, thus helping credit unions to focus on what we do best - making loans which best serve the membership.

2. **Corporate Capital.**

Core capital.
Membership capital.
Risk-based capital and contributed capital requirements.

Hold Investors Accountable - We will address all three capital issues together because of what we are advocating for the restructuring for corporates. Corporates need to be held to the same capital standards as other financial institutions. Natural person credit unions need to invest in their corporate with paid in capital in order to utilize the services of a corporate. The amount of paid in capital should be a stated percent of a natural person credit union's assets in order to avail itself to the services of the corporate. In addition, a natural person credit union would invest more paid in capital as a percent of any borrowings from the corporate. Again, this would be similar to the Federal Home Loan Bank system. If the natural person credit union wanted to leave the corporate credit union, it would be required to give written notice, and the return of paid in capital would be received at the end of three years or after all services, investments, and borrowings are terminated, whichever is longer.

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3. **Permissible Investments.**

Corporate credit unions' investment powers should be greater than that of natural person credit unions but only to the extent of their net worth. This would allow the corporate to take on additional risk, but it would be limited.

4. **Credit Risk Management.**

Mitigate Credit Risk Better - The standards for credit risk management should require that all investments must be investment grade at time of purchase. Subsequent to purchase, the investment policy standards should specify frequency of re-evaluation of credit rating, monitoring and reporting, and actions to be taken if an investment falls outside the investment grade range. In addition, there should be routine independent evaluations of the investment portfolio that are reported to NCUA.

5. **Asset Liability Management.**

Mitigate Interest Rate Risk Better - NCUA should require modeling of net interest income and net income over and above a plus or minus 300 basis points rate shock. If the corporates maintain a "matched book" policy with their assets and liabilities, then interest rate risk will be minimized under any interest rate scenario.

6. **Corporate Governance.**

Diversity and Term Limits - The number of board members needs to be standardized for all regional corporates. The directors need to have a minimal level of knowledge and experience that would qualify the individual to be a regional corporate board member. Term limits should also be required. Corporate directors should not be compensated.

As for the "central corporate", we again recommend that all directors need to have a minimal level of knowledge and experience that would qualify the individual for this level of responsibility. These directors should be representatives of the credit union movement, and there needs to be term limits. Central corporate directors should not be compensated. There should not be any outside directors from any of the trade associations on the boards. We would recommend an advisory board that would have representatives from trade associations (e.g. CUNA, NAFCU, NFCDCU, etc.) that could provide invaluable advice and suggestions.

7. **Final Comments.**

From what we have seen and heard, our suggestions and recommendations are rather restrictive and conservative compared to others. However, we have used this conservative business model at our credit union and it has served our members and us extremely well. Our financial performance, audits, and examinations are proof that it will work. We stand ready to assist the NCUA in any way we can to restructure and reinvent the corporate network to be a safe haven for natural person credit unions and to build upon the cooperative spirit that is a foundation of our movement.

Sincerely,

Don W. Lewis
President/CEO
APGFCU